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CONTACT: RICHARD MILLS  
(202) 395-3230**

**U.S. Wins in WTO Challenge to Canadian Dairy Subsidies**

WASHINGTON - The United States won an important victory today when a World Trade Organization (WTO) Appellate Body decided that Canada continues to provide illegal subsidies to its dairy industry, even after revising its practices due to previous losses. This is the second time the WTO has decided against Canada's illegal dairy export subsidies.

"Canada has been unfairly subsidizing its dairy industry for years and American dairy farmers have been suffering because of it," said U.S. Trade Representative Robert B. Zoellick. "We are pleased that the Appellate Body has agreed with our position that Canada's dairy export practices constitute an illegal export subsidy. This is an important victory for American dairy farmers and processors and U.S. agriculture in general. The Appellate Body's decision resolves this longstanding dispute and establishes an important precedent regarding what constitutes an export subsidy. Canada now needs to comply with its WTO obligations and end its unfair subsidies."

"This is an important example that the WTO trade dispute resolution system works," said Agriculture Secretary Ann M. Veneman. "We urge the Canadians to move quickly into compliance with the decision issued by the WTO so that U.S. farmers can have access to these markets."

The Appellate Body found that Canada's "commercial export milk" scheme provides an export subsidy, in the form of discounted milk, to Canadian businesses that process cheese and other dairy products. The WTO findings establish an important precedent that will help prevent other countries from adopting similar export subsidy schemes harmful to U.S. agricultural industries.

The United States government calculates that Canadian dairy export subsidies result in lost sales to American farmers and dairy processors of up to \$35 million per year.

The next step in the process is for the WTO's Dispute Settlement Body to formally adopt the Appellate Body's report in January. There is no further appeal.

**Background:**

As part of its Uruguay Round WTO obligations, Canada agreed to specific limits on export subsidies for dairy products. In 1995, Canada replaced its subsidy payments on all dairy exports, which were financed by a levy on dairy producers, with a new system. However, this system let Canadian processors buy lower-priced milk and use it to make cheese and other dairy products for export. Canada claimed the new system was no longer an export subsidy.

In 1997, the National Milk Producers Federation, the U.S. Dairy Export Council and the International Dairy Foods Association asked the Office of the U.S. Trade Representative to challenge Canada's dairy trade practices as inconsistent with its WTO obligations on export subsidies. After bilateral consultations, the U.S. referred its complaint to a WTO dispute settlement panel in February 1998. New Zealand joined the U.S. challenge to Canada's export subsidies.

In 1999, a WTO panel and the Appellate Body found that Canada's special milk class system, which provides discounted milk for export, was indeed an export subsidy. The WTO panel and the Appellate Body also found that Canada was violating its WTO Agreement on Agriculture by shipping more subsidized dairy exports than it had agreed to.

In response to the panel and Appellate Body reports, Canada introduced its "commercial export milk" scheme. The United States and New Zealand charged that Canada's new system still did not bring Canada's export subsidy system into conformity with its WTO obligations. In January 2001, the United States and New Zealand asked that a new WTO dispute settlement panel review the new Canadian system. That panel agreed in July 2001 that Canada's new system continued to provide an export subsidy in the form of discounted milk to Canadian dairy processors.

Canada appealed the panel's findings. In December 2001, the Appellate Body said it could not reach a decision because it didn't have enough information. The United States and New Zealand then requested another WTO panel to review the additional information requested by the Appellate Body. In July 2002, the panel concluded that Canada was continuing to provide illegal export subsidies to Canadian dairy processors with the discounted milk. Today's Appellate Body report affirms that panel's findings.

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